

MEMORANDUM

April 24, 1991

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TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF AUDIT AND FINANCE (DOUD) *Fa*
RE: DOCKET NO. 910119-WS -- MARICO PROPERTIES
CERTIFICATE TRANSFER - AUDIT CONTROL NO. 91-067-3-1

Forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

Audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Marico Properties, Inc.
Attn: Mr. Michael J. Slack
720 S. W. 17th Street
Ocala, FL 32674-3542

FD/sp

Attachment

cc: Chairman Beard
Commissioner Deason
Commissioner Easley
Commissioner Gunter
Commissioner Wilson
Bill Talbott, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin)
Division of Water and Sewer (Von Fossen)
Orlando District Office (Forbes)

Mr. Don Hale
Office of Public Counsel
624 Fuller Warren Building
202 Blount Street
Tallahassee, FL 32301

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AUDITING &
FINANCIAL ANALYSIS DIV

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

AT 11/30/90

FIELD WORK COMPLETED

MARCH 29, 1991

MARICO PROPERTIES, INC.

OCALA, FLORIDA

MARION COUNTY

CERTIFICATE TRANSFER AUDIT

DOCKET NUMBER 910119-WS

AUDIT CONTROL NUMBER 91-067-3-1

James R. Todd

JAMES R. TODD
AUDIT MANAGER

Ian J. Forbes

IAN J. FORBES
DISTRICT AUDIT SUPERVISOR
ORLANDO

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

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I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to prepare a proposed Rate Base Schedule at November 30, 1990, for the Marico Properties, Inc., application for a transfer of certificate, FPSC Docket No. 910119-WS.

Scope Limitation: There is no limitation and no confidential information related to this report. The audit exit conference was held on 4/18/91.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance to their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: Subject to Audit Exception No. 1 the Rate Base Schedule as of November 30, 1991, represents Marico Properties books and records which have been maintained in substantial compliance with Commission Directives: The expressed opinions extend only to the scope of work described in Section II of this report.

Summary Findings: The failure of the utility to adjust their records to FPSC Order 13292, issued 5/15/84, results in the 11/30/90 rate base per records to be overstated by \$9,079.

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED means that audit work includes:

COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

Rate Base: Compiled Utility Plant and Contributions In Aid of Construction account balances from February 28, 1983 through November 30, 1990; reconciled the company balances of rate base components as of 2/28/83 to FPSC Order 13292, issued 5/15/84. Reviewed the basis of the one CIAC addition since 2/28/83. (There were no plant additions since 2/28/83). Recomputed plant depreciation and CIAC amortization in accordance with the last rate which was as authorized by FPSC Order 13292.

Read outside accountants' workpapers supporting account balances reported by the current seller for 1988 and 1989.

Read prior year's workpapers relating to FPSC Order 13292.

AUDIT EXCEPTION NO. 1

SUBJECT: NON-COMPLIANCE WITH COMMISSION ORDER NO. 13292

STATEMENT OF FACT:

1. The cited Order established a rate base of \$35,082.
2. The Order was supported by a memo dated 4/10/84, (from the Commission Water and Sewer Dept. to the Commission Clerk) that provided the following:
 - a. Rate Base components that totaled the Order amount of \$35,082.
 - b. An "as of date" of 2/28/83.
 - c. A statement that depreciation is straight line using a composite rate of 2.5%.
3. NARUC, Class "C", Accounting Instruction 3 requires that all utility plant be recorded at original cost which is defined as "the cost of such property to the person first devoting it to public service."

OPINION: The utility has not complied with the Commission Order and NARUC Instructions cited in the facts above.

RECOMMENDATIONS: Reduce rate base per Seller's records by \$9,079. Details by subaccount are shown on the appended schedule.

COMPANY COMMENTS: Withheld pending further review.

EXCEPTION # 1 SCHEDULE

DESCRIPTION	NOTE	PLANT	LAND	CIAC	ACC DEPREC	ACC CIAC AMORTZ	TOTAL
A. PER AUDIT							
1. AT 2/28/83	a	36,365	100		(1,383)		35,082
2. add thru 11/30/90:							0
CIAC	b			(2,100)			(2,100)
ACC DEP	c				(7,046)		(7,046)
ACC AMTZ	d					127	127
3. TOTAL		36,365	100	(2,100)	(8,429)	127	26,063
B. PER UTILITY							
PLANT	e	54,799					54,799
LAND	f		15,000				15,000
CIAC	g			(26,100)			(26,100)
ACC DEP	h				(15,437)		(15,437)
ACC AMTZ	i					6,880	6,880
11/30/90 PER UTILITY		54,799	15,000	(26,100)	(15,437)	6,880	35,142
C. ADJUSTMENTS		(18,434)	(14,900)	24,000	7,008	(6,753)	(9,079)

D. NOTES

- a. PER ORDER 13292 AND SUPPORTING WATER AND SEWER DEPARTMENT MEMO.
 - b. 2,100 OF CIAC COLLECTED FROM A BUILDER IN 1988 PER UTILITY AND AUDIT.
 - c. DEPRECIATION RATE OF 2.5 % PER ORDER 13292 SUPPORTING MEMO.
 $36,365 \text{ PLANT} \times .025 \text{ RATE} \times 7.75 \text{ YEARS} = 7,046$
 - d. DEPRECIATION RATE OF 2.5 % PER ORDER 13292 SUPPORTING MEMO.
 $2,100 \text{ CIAC} \times .025 \text{ RATE} \times 2.4167 \text{ YEARS} = 127$
-
- e. THE UTILITY ADJUSTED PLANT TO A 1980 BID PRICE (VS PRIOR ORDER AUDIT AMOUNT).
 - f. LAND PER UTILITY IS THEIR CPA'S ESTIMATE OF THE VALUE OF A 99 YEAR LEASE. PRIOR ORDER IS BASED ON COST TO OWNER WHO ORIGINALLY PUT THE PLANT IN SERVICE.
 - g. 24,000 OF CIAC BOOKED BY THE UTILITY WAS TO OFFSET THE DIFFERENCE BETWEEN BID PRICE (SEE e. ABOVE) AND THE BOOKED AMOUNT PER PRIOR OWNER.
 - h. COMPANY ACCUMULATED DEPRECIATION WAS NOT BASED ON RATES AND PLANT BALANCES AS ESTABLISHED BY ORDER 13292.
 - i. COMPANY CIAC AMORTIZATION WAS BASED ON A COMPOSITE PLANT DEPRECIATION RATE OF 3.5 % (VS. 2.5 % PER PRIOR ORDER) AND INCLUDED THE CIAC DISCUSSED IN g. ABOVE.
 - h.i. "PER UTILITY" 11/30/90 ACCUMULATED AMOUNTS ARE ANNUAL REPORT 12/31/89 BALANCES PLUS 11/12 OF 1989 ANNUAL REPORT ADDITIONS TO ACCUMULATED BALANCES.

AUDIT DISCLOSURE NO. 1

SUBJECT: ACQUISITION ADJUSTMENT

STATEMENT OF FACT:

1. The Buyer's certificate transfer application reflects he is not requesting the inclusion of an acquisition adjustment.
2. Exhibit "D" of the transfer application is a Conditional Bill of Sale which indicates several systems are being purchased and the Buyer is assuming several debt instruments. The Seller is listed as A.P. Utilities, Inc., Michael D. Blake, President.
3. The Buyer indicated he considers the purchase price of the Marico System to be that of the note to Marico Properties, Inc. (the Seller to Mr. Blake) which is the application Exhibit "F." The Exhibit shows that the note as of 01/31/91, had a balance of \$16,892.

OPINION:

1. The balance of the note discussed above as of the 11/30/89, transfer date was \$17,184 per audit calculation. If this is used as the purchase price, the Marico acquisition adjustment would be \$8,879 based on the appended Exhibit No. 1 rate base of \$26,063.
2. An alternate basis would be a pro rata allocation of the "basket purchase" price to all the systems based on Commission established rate bases.

COMPANY COMMENTS: Withheld pending further review.

AUDIT DISCLOSURE NO. 2

SUBJECT: SERVICE AVAILABILITY CHARGES

STATEMENT OF FACT:

1. Commission Order 13292, issued 05/15/84, ordered "that all rates and charges presently in effect for Marico Properties, Inc., are hereby approved."
2. The 04/10/84 Water and Sewer Department memorandum supporting Order 13292 states that the utility has no service availability charges and that the development of these charges should wait until the utility has a rate case.
3. The utility's 1988 Annual Report indicates that during 1988, \$2,100 was received for four (4) customer connection charges (three at \$500 and one at \$600).

OPINION: The Commission Division of Water and Sewer should determine the propriety of the collected CIAC by verifying the charges that were in effect on 5/15/84.

COMPANY COMMENTS: Withheld pending further review.

MARICO PROPERTIES, INC
 CERTIFICATE TRANSFER
 DOCKET # 910119-WS
 RATE BASE
 AT 11/30/90

EXHIBIT
 NO. 1

<u>DESCRIPTION</u>	<u>PER BOOKS 11/30/90 SEE NOTE # 1</u>	<u>AUDIT EXCEPTIONS</u>	<u>REFER TO</u>	<u>PER AUDIT 11/30/90</u>
UTILITY PLANT IN SERVICE	\$54,799	\$5,566 (24,000)	E-1 E-1	\$36,365
LAND	15,000	100 (15,000)	E-1 E-1	100
CONT IN AID OF CONSTRUCT	(26,100)	24,000	E-1	(2,100)
ACCUMULATED DEPRECIATION	(15,437)	7,008	E-1	(8,429)
CIAC ACCUM AMORTIZATION	6,880	(6,753)	E-1	127
TOTAL RATE BASE	\$35,142	(\$9,079)		\$26,063

1. PER BOOKS IS PER 12/31/89 ANNUAL REPORT UPDATED THROUGH 11/31/90 FOR DEPRECIATION/AMORTIZATION PER COMPANY 1989 BASIS. THERE WERE NO 1990 PLANT, LAND, OR CIAC ACTIVITIES PER AUDIT.
2. AUDIT EXCEPTIONS DO NOT REFLECT THE POSSIBLE EFFECT OF AUDIT DISCLOSURES.

Commissioners:
THOMAS M. BEARD, CHAIRMAN
GERALD L. GUNTER
MICHAEL WILSON
BETTY EASLEY
J. TERRY DEASON

State of Florida



STEVE TRIBBLE, Director
Division of Records and Reporting
(904) 488-8371

Public Service Commission

April 25, 1991

Marico Properties, Inc.
Attn: Mr. Michael J. Slack
720 S. W. 17th Street
Ocala, FL 32674-3542

Dear Mr. Slack:

Docket No. 910119-WS -- Marico Properties
Certificate Transfer Audit

The enclosed report is forwarded for your review.

The audit report and any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Steve Tribble

ST/FD/sp
Enclosure